Webinar

ULI Real Estate Economic Forecast in Real Time Experts Share Their Expectations for 22 23 and 24

Date: November 09, 2022

00:02:48 --> 00:02:53:	OK. Welcome to the 22nd semiannual UI real estate economic
00:02:53 --> 00:02:58:	forecast. It is our finishing our 11th year. I'm Anita
00:02:58 --> 00:03:02:	Kramer, I I'm with the ULI Center for real estate
00:03:02 --> 00:03:04:	economics and capital markets.
00:03:05 --> 00:03:08:	And I'll be hosting the results portion of this webinar.
00:03:09 --> 00:03:10:	So starting off with some background.
00:03:12 --> 00:03:17:	The forecast is a three-year forecast to the end of
00:03:17 --> 00:03:19:	2223 and 24.
00:03:19 --> 00:03:24:	43 economists and analysts participated from 37 leading real estate
00:03:24 --> 00:03:29:	organizations, and they provided forecasts of 27 economic and real
00:03:29 --> 00:03:34:	estate indicators. We report the median of their forecasts. Today's
00:03:34 --> 00:03:39:	results are from the most recent survey, finished just four
00:03:39 --> 00:03:40:	weeks ago.
00:03:40 --> 00:03:42:	There are three parts to today's webinar.
00:03:43 --> 00:03:46:	1st, I'll go through some of the results, then we'll
00:03:46 --> 00:03:50:	pull you, the audience on your reaction to the results
00:03:50 --> 00:03:53:	and from there we'll move right into the panel discussion.
00:03:54 --> 00:03:58:	So first I want to introduce our stellar moderator and
00:03:58 --> 00:04:02:	panelist. They are all survey participants and they will be
00:04:02 --> 00:04:06:	live for the panel discussion right after the results presentation.
00:04:07 --> 00:04:12:	Bill Maher will moderate. He's director, strategy and research at
00:04:12 --> 00:04:17:	RCL Co Fund advisors. Page Mueller has many managing director
00:04:17 --> 00:04:21:	at IJAN 10, I didn't, I didn't, 10 advisors. Will

00:04:21 --> 00:04:26:	Patterson is head of research and strategy at MetLife Investment
00:04:26 --> 00:04:31:	Management and Sabrina Anger is managing Director, head of research
00:04:31 --> 00:04:35:	and Strategy at American Realty Advisors.
00:04:36 --> 00:04:38:	So turning to the results.
00:04:38 --> 00:04:41:	And I'm going to take myself off the off the
00:04:41 --> 00:04:44:	video so you can see the sides better.
00:04:45 --> 00:04:48:	And uh first a quick tour of through what all
00:04:48 --> 00:04:51:	the chart shows. So the green bars are 12 years
00:04:51 --> 00:04:55:	of recent history. The red horizontal line brings in more
00:04:55 --> 00:04:58:	years, showing a 20 year average. The blue bars are
00:04:59 --> 00:05:02:	three forecast years and are the three forecast years. And
00:05:02 --> 00:05:06:	just reminder that the charts that we present today plus
00:05:06 --> 00:05:10:	others are available for download after the webinar.
00:05:11 --> 00:05:15:	So starting off with some broad economic indicators, with the
00:05:15 --> 00:05:19:	first up being GDP, GDP bounced back quickly in 21
00:05:19 --> 00:05:23:	from the pandemic induced contraction in 20, rising 5.7%, which
00:05:23 --> 00:05:28:	is almost three times higher than that long-term average. So
00:05:28 --> 00:05:30:	take a look at that horizontal bar.
00:05:31 --> 00:05:35:	Growth is forecast to slow to below the long term
00:05:35 --> 00:05:39:	average in 22 to 1.5% and further decline to minimal
00:05:39 --> 00:05:42:	growth in 23 and 24. Growth is expected to reverse
00:05:43 --> 00:05:47:	direction, strengthening to 2.1% bringing it back up above the
00:05:47 --> 00:05:52:	long-term average and approaching the average annual growth in the
00:05:52 --> 00:05:54:	pre pandemic decade.
00:05:54 --> 00:05:59:	Moving on to employment, annual job growth stage staged a
00:05:59 --> 00:06:03:	significant but not complete recovery in 21 with 6.7 million
00:06:03 --> 00:06:07:	jobs after the loss of 9.3 million jobs and 20
00:06:07 --> 00:06:11:	full recovery of those lost jobs plus some new growth
00:06:11 --> 00:06:15:	is expected in 22 with an additional 4.3 million jobs.
00:06:15 --> 00:06:18:	Growth is expected to continue, but at much lower.
00:06:18 --> 00:06:19:	Levels.
00:06:19 --> 00:06:24:	With point 6 million jobs and 23 below the long-term
00:06:24 --> 00:06:28:	average back above the long term average in 24 with
00:06:28 --> 00:06:32:	1.5 million jobs. Still those number of jobs in 24
00:06:32 --> 00:06:36:	is lower than almost all years in the pre pandemic
00:06:36 --> 00:06:37:	decade.
00:06:38 --> 00:06:39:	And next is employment.
00:06:40 --> 00:06:44:	The employment rate is expected to be 3.7% at the
00:06:45 --> 00:06:49:	end of 22, amongst the lowest rates in the last

00:06:49 --> 00:06:53: two decades and then loosening a bit to over 4%
00:06:53 --> 00:06:53: in.
00:06:54 --> 00:06:57: So next is so 5-6 is unemployment.
00:06:58 --> 00:07:02: And and then listening a bit over 4% in 23
00:07:02 --> 00:07:07: and and 24 still remaining below the long-term average.
00:07:08 --> 00:07:14: So turning to inflation, interest rates and cap rates, inflation
00:07:14 --> 00:07:18: as measured by the consumer price index was 7% in
00:07:18 --> 00:07:22: 21, more than three times higher than the 20 year
00:07:22 --> 00:07:27: average. Again that red light red line, the forecast for
00:07:27 --> 00:07:31: 22 is for the inflation rate to notch up further
00:07:31 --> 00:07:35: to 7.5% and begin moderating 23 to 4% and then
00:07:35 --> 00:07:38: further decline to 2.6% in 24.
00:07:38 --> 00:07:44: Ending the forecast period just above the long-term average. Moving
00:07:44 --> 00:07:48: on to interest rates, after particularly low rates in 20
00:07:49 --> 00:07:53: and 21, the 20, the 10 yard treasury is expected
00:07:53 --> 00:07:56: to rise by 236 basis points by the end of
00:07:56 --> 00:08:01: 22 to almost 3.9%, then moderate over the next two
00:08:01 --> 00:08:05: years but remain above the long term average. Ending the
00:08:06 --> 00:08:08: forecast period at 3.23%.
00:08:09 --> 00:08:12: Moving on to cap rates, the nacre if cap rate
00:08:12 --> 00:08:18: capitalization rate for institutional quality investments has steadily declined for
00:08:18 --> 00:08:22: 12 years, including the two pendemic years and was up
00:08:22 --> 00:08:24: 4% at the end of 21.
00:08:25 --> 00:08:30: Cap rates are expected to remain unchanged in 22 at
00:08:30 --> 00:08:33: 4%, move up by 50 basis points in 23 to
00:08:33 --> 00:08:38: 4.5% and again remain unchanged at that rate in 24.
00:08:39 --> 00:08:46: Turning to transactions and prices, transaction volume reached an historic
00:08:46 --> 00:08:51: high of $855 billion in 21, almost double the pandemic
00:08:51 --> 00:08:57: low in in 20. Transaction transaction volume is expected to
00:08:57 --> 00:09:02: moderate to $600 billion in 22 similar to the volume
00:09:02 --> 00:09:06: of the Pre pandemic year in 19 and remain at
00:09:06 --> 00:09:09: 600 billion in 23 transaction.
00:09:09 --> 00:09:13: Volume is expected to strengthen in 24 to 750 billion
00:09:13 --> 00:09:18: which would, if we reach that level, exceed annual volumes
00:09:18 --> 00:09:20: in any pre pandemic year.
00:09:21 --> 00:09:25: Moving on to price group price growth was 19.2% in
00:09:25 --> 00:09:29: 21, almost triple the price growth in each of the
00:09:29 --> 00:09:34: five previous years. Growth in these years in those years
00:09:34 --> 00:09:38: were already above the long term average. Price growth in
00:09:39 --> 00:09:43: 22 is expected to moderate substantially to 5.5%, but remain

00:09:44 --> 00:09:48:	above the long term average, dip below the long-term average
00:09:48 --> 00:09:52:	in 23 and then back up to the 5% range
00:09:52 --> 00:09:52:	in 24.
00:09:53 --> 00:09:58:	And finally turning to sectors, the industrial sector and availability
00:09:58 --> 00:10:02:	of the four major sectors, the industrial sector had experienced
00:10:02 --> 00:10:06:	the biggest drop in availability rates in the pre pandemic
00:10:06 --> 00:10:10:	decade, ending up just under 6% in 18. That trend
00:10:10 --> 00:10:13:	started to reverse and notch up to just over 6%
00:10:13 --> 00:10:17:	in 19, but that new direction barely took hold in
00:10:17 --> 00:10:21:	20, the first pandemic year with barely an uptick before
00:10:21 --> 00:10:23:	once again continuing to decline.
00:10:23 --> 00:10:26:	In 21 to 4.7%.
00:10:27 --> 00:10:31:	The forecast is for all three years to remain tight,
00:10:32 --> 00:10:36:	plateauing at 4%, four point, 7% and 22 the notching
00:10:36 --> 00:10:39:	up to just 5.3% by 24.
00:10:40 --> 00:10:45:	And going on to rental rate change, industrial rental rate
00:10:45 --> 00:10:48:	growth in the last nine years has been for the
00:10:48 --> 00:10:54:	most part substantially above the long-term average and reached A2
00:10:54 --> 00:10:58:	decade high of 6.8% in 21. Rent growth is expected
00:10:58 --> 00:11:01:	to move up further in 22 to 8.8% and continue
00:11:01 --> 00:11:05:	at elevated but moderating rates in 23 and 24, ending
00:11:05 --> 00:11:09:	up at 4% at the end of the forecast period
00:11:09 --> 00:11:11:	and looking at returns.
00:11:11 --> 00:11:16:	With those fundamentals and a creep, industrial total returns in
00:11:16 --> 00:11:20:	22 are forecast to be a strong almost 19% after
00:11:20 --> 00:11:23:	even stronger returns of almost double that in.
00:11:24 --> 00:11:28:	In 21, returns are forecast to moderate in 23 to
00:11:28 --> 00:11:33:	below the long-term average and remain below in 24 other
00:11:33 --> 00:11:38:	with some some movement upwards in that last year.
00:11:39 --> 00:11:44:	Turning to the apartment sector and vacancies, apartments have been
00:11:44 --> 00:11:48:	have been performing well for quite some time, reaching a
00:11:48 --> 00:11:52:	pre pandemic low vacancy rate of 4.1% in 19. Vacancy
00:11:52 --> 00:11:56:	rates slid up a bit during the first pandemic year
00:11:56 --> 00:12:00:	to 4.7%, but then in 21 rates not only reversed
00:12:00 --> 00:12:04:	direction but dropped by almost 1/2 to 2.6%. They can
00:12:04 --> 00:12:08:	see rates are expected to remain quite tight even with.
00:12:09 --> 00:12:13:	Pushing up over the forecast period to 3.7% by the

00:12:13 --> 00:12:15: end, by the end of 24.
00:12:16 --> 00:12:20: Going on to rental rate change, growth had decelerated and
00:12:20 --> 00:12:24: for the four years prior to the pandemic, but still
00:12:24 --> 00:12:28: averaged a strong 2.4% a year. Rents then declined in
00:12:28 --> 00:12:32: 20 before rebounding in 21 with a 13.4% growth rate.
00:12:33 --> 00:12:37: Rent growth in 22 is expected to remain elevated but
00:12:37 --> 00:12:43: moderated at 7.7% growth is then expected to moderate substantially
00:12:43 --> 00:12:48: but remain strong relative to the long term average at
00:12:48 --> 00:12:51: 3.6% and 3% in 23 and 24 and going to
00:12:52 --> 00:12:56: returns make reef apartment total and returns in 22 are
00:12:57 --> 00:13:01: expected to be strong at 10% even though down from
00:13:01 --> 00:13:03: from almost 20% in 21.
00:13:03 --> 00:13:08: Returns are forecast to further moderate in 23 to below
00:13:08 --> 00:13:12: the long-term average and remain below in 24, although with
00:13:12 --> 00:13:14: some movement upwards.
00:13:15 --> 00:13:17: Turning to the retail sector.
00:13:17 --> 00:13:21: Retail availability rates were 8% in 21, the lowest post
00:13:21 --> 00:13:25: Great Recession rate for the sector and these are these
00:13:25 --> 00:13:28: are neighborhood and community centers, not malls.
00:13:29 --> 00:13:34: Availability rates are expected to further tighten in 22 to
00:13:34 --> 00:13:38: 7.7% and and plateau there in 23 and 24. Moving
00:13:38 --> 00:13:43: to rental rate change, rent growth strengthened in 21 to
00:13:43 --> 00:13:48: 1.9% after four years, more moderate but still above long
00:13:48 --> 00:13:54: term average growth rates. The forecast indicates continued increase in
00:13:54 --> 00:13:58: rent growth in the first year to 2%, a retreat
00:13:59 --> 00:13:59: in 23.
00:13:59 --> 00:14:03: Of those still above the long term average and then
00:14:03 --> 00:14:05: the return to stronger growth of 1.8% in 24.
00:14:07 --> 00:14:12: And looking at total annual returns, retail returns are expected
00:14:12 --> 00:14:15: to be 5% and 22, up from 21 returns but
00:14:15 --> 00:14:19: still below the long-term average. Retail returns are expected to
00:14:20 --> 00:14:23: dip in 23 and strengthen again in 24 to 6%.
00:14:23 --> 00:14:27: That 6%, if it happened would be the strongest returns
00:14:27 --> 00:14:28: in eight years.
00:14:29 --> 00:14:32: OK. I'm just gonna take one more minute touch on
00:14:32 --> 00:14:33: the office sector.
00:14:34 --> 00:14:38: Similar to the retail sector, the office vacancy rate 19
00:14:38 --> 00:14:43: was the lowest post Great Recession, but unlike retail vacancy

00:14:43 --> 00:14:48: rate increased substantially in 20 and 21 to 16.6% during
00:14:48 --> 00:14:52: the forecast period. Rates are expected to rise more moderately
00:14:53 --> 00:14:55: and stay elevated averaging 17.4%.
00:14:56 --> 00:15:01: And looking at rental rate change, the minimal changes in
00:15:01 --> 00:15:05: rental rates in the first two pandemic years averaged -,
00:15:05 --> 00:15:06: .3%.
00:15:06 --> 00:15:11: Growth over the three forecast years is expected to average
00:15:11 --> 00:15:15: a positive .3% with minimal changes in the first two
00:15:15 --> 00:15:19: years and some strengthening in 24 with a growth rate
00:15:19 --> 00:15:19: of 1.1%.
00:15:20 --> 00:15:24: And moving on to returns. Office returns are expected to
00:15:24 --> 00:15:28: be 2% and 22, significantly down from returns in 21.
00:15:29 --> 00:15:33: Office total returns are forecast to turn negative in 23,
00:15:33 --> 00:15:37: but shows some improvement in 24 at 4/4 point, 1%
00:15:37 --> 00:15:41: remaining below returns of the four years prior to the
00:15:41 --> 00:15:46: pandemic and wrapping up actually one more sector wrapping up
00:15:46 --> 00:15:51: with the single family housing sector over the last decade.
00:15:51 --> 00:15:57: Single family housing starts experience consistent annual growth with starts
00:15:57 --> 00:16:01: in 21, almost double those in 2012. Housing starts are
00:16:01 --> 00:16:05: expected to reverse direction in 22 and be down almost
00:16:05 --> 00:16:09: 30% from the peak by 23. Housing starts will start
00:16:09 --> 00:16:13: to recover in 24, approaching but not yet back to
00:16:13 --> 00:16:17: the long-term average. So let's go to the next, the
00:16:17 --> 00:16:20: next one. OK, so in summary before we get to
00:16:20 --> 00:16:21: the pole.
00:16:21 --> 00:16:25: The results generally show positive but slower growth in the
00:16:25 --> 00:16:28: near term, a dip in the second year and a
00:16:28 --> 00:16:31: return to stronger growth in 24, although the extent and
00:16:32 --> 00:16:35: timing of that differs among sectors. And all this takes
00:16:35 --> 00:16:40: place with uncertainties that are being introduced by the economic
00:16:40 --> 00:16:41: considerations.
00:16:42 --> 00:16:47: So the question to you, the audience is this forecast
00:16:47 --> 00:16:53: 2 optimistic just right, not optimistic enough. And with that,
00:16:53 --> 00:16:57: I guess we've launched the poll and I'll turn it
00:16:57 --> 00:17:02: over to Bill and to the to report the results
00:17:02 --> 00:17:06: and start the discussion with the panel.
00:17:10 --> 00:17:13: Great. Thanks, Anita. That was great. As someone who's been
00:17:14 --> 00:17:17: involved in this survey for since the beginning, it's really

00:17:17 --> 00:17:20: great to see how popular it's become and and how
00:17:20 --> 00:17:24: how we have this consistent results across many years. I
00:17:24 --> 00:17:28: do notice we have over 1000 people participating today. So
00:17:28 --> 00:17:31: that's probably a record and neither can let us know
00:17:31 --> 00:17:32: if that's the case.
00:17:33 --> 00:17:36: So we have a great panel. I'm going to jump
00:17:36 --> 00:17:39: right into it. I'm going to talk. I'm going to
00:17:39 --> 00:17:42: cover 3 areas, first, the economy and then capital markets
00:17:42 --> 00:17:45: and then the property markets. And I will be trying
00:17:45 --> 00:17:48: to monitor your questions, if you have any and and
00:17:48 --> 00:17:51: try and fit those in. But we we have a
00:17:51 --> 00:17:53: lot of questions already on the in the.
00:17:55 --> 00:17:57: In the can. So we'll try to get to those
00:17:57 --> 00:18:01: as well. So just starting starting with sort of following
00:18:01 --> 00:18:04: up with what Anita just asked everyone.
00:18:05 --> 00:18:09: Ask the panel. Do you think that the survey results,
00:18:09 --> 00:18:13: broadly speaking, are optimistic, too optimistic, just right or not
00:18:13 --> 00:18:17: optimistic enough? And was there anything that stood out to
00:18:17 --> 00:18:20: you in terms of either being too positive or too
00:18:20 --> 00:18:23: negative? So Sabrina, start with you and you might be
00:18:23 --> 00:18:25: on mute now you're not right?
00:18:26 --> 00:18:27: I would.
00:18:27 --> 00:18:29: Say likely too positive.
00:18:29 --> 00:18:33: In general, specifically as it relates to the relative outlook
00:18:33 --> 00:18:36: for strength in the macro economy, so even though it's
00:18:36 --> 00:18:40: only been essentially 4 weeks since the survey closed, I
00:18:40 --> 00:18:43: know on our side, we're monitoring a lot of high
00:18:43 --> 00:18:46: frequency data points in real time every week. And we're
00:18:46 --> 00:18:50: already seeing how meaningful a deceleration we're already in and
00:18:50 --> 00:18:53: we don't think we're done yet. So I think on
00:18:53 --> 00:18:55: the macro side might be too optimistic here.
00:18:58 --> 00:18:59: About will.
00:19:00 --> 00:19:04: Yeah. So the the GDP forecast I think seems reasonable.
00:19:04 --> 00:19:07: The unemployment rate at around I think 4 1/2% feels
00:19:07 --> 00:19:09: a little low to me. I I would expect given
00:19:10 --> 00:19:13: that low level of GDP forecast that unemployment would probably
00:19:14 --> 00:19:16: rise to something closer to 6%. So I'm a little
00:19:16 --> 00:19:20: more negative from that perspective. And then just in terms
00:19:20 --> 00:19:21: of the.
00:19:21 --> 00:19:24: Um, returns which I know we're gonna get into. The

00:19:24 --> 00:19:28: industrial returns seemed also seemed a little high again given

00:19:28 --> 00:19:30: that low GDP forecast which which I agree with.

00:19:32 --> 00:19:33: And page.

00:19:36 --> 00:19:39: The thing that really stuck out to me was just

00:19:39 --> 00:19:43: the difference between what's happening in the rate markets and

00:19:43 --> 00:19:47: the expectations for the private markets and the reef markets.

00:19:47 --> 00:19:50: They're down a good 25% this year and reading and

00:19:50 --> 00:19:53: yields are up a good 150 basis points. We've got,

00:19:53 --> 00:19:57: you know, 10 year treasuries up 250 basis points and

00:19:57 --> 00:20:00: it's just really not reflected on the private side. You

00:20:00 --> 00:20:04: in the US rate markets tend to in general, especially

00:20:04 --> 00:20:06: in big corrections, lead the private.

00:20:06 --> 00:20:09: Market Spice 6 to 12 months and you know and

00:20:09 --> 00:20:13: we're seeing return forecasts in the next couple years 8

00:20:13 --> 00:20:15: to 10%. It just seems to me like there's a

00:20:15 --> 00:20:19: big disconnect there of what we're seeing in current pricing

00:20:19 --> 00:20:23: in the public markets and what the expectations are for

00:20:23 --> 00:20:25: the private markets the next couple years.

00:20:28 --> 00:20:31: OK, great. Well let's, let's, let's dig in a little

00:20:32 --> 00:20:34: bit to the the GDP number, the the .5% GDP

00:20:35 --> 00:20:38: for next year 2023. You know just curious what you

00:20:38 --> 00:20:42: think about that and and does that imply a recession

00:20:42 --> 00:20:45: and as you look at that number and or do

00:20:45 --> 00:20:48: you think there will be a recession in 2023 start

00:20:48 --> 00:20:49: with will?

00:20:50 --> 00:20:53: Uh, I think that level of GDP growth probably does

00:20:53 --> 00:20:57: imply a recession. It's possible that the growth figures will

00:20:57 --> 00:21:01: skirt just the right way and and the Council that

00:21:01 --> 00:21:05: defines recessions will ultimately determine there's not one. But it

00:21:05 --> 00:21:08: seems more likely than not that that that implies a

00:21:08 --> 00:21:12: recession if that's the calendar year GDP growth. And, and

00:21:12 --> 00:21:15: I tend to agree with that, my base case view

00:21:15 --> 00:21:18: is that the US economy either has entered or will

00:21:18 --> 00:21:20: enter a technical recession.

00:21:20 --> 00:21:21: During 2023.

00:21:24 --> 00:21:25: Page.

00:21:27 --> 00:21:30: Yeah, I just add, if we look at the indicators,

00:21:30 --> 00:21:34: there are some concerns coming up. So you know the

00:21:34 --> 00:21:37: yield curve certainly flattening.

00:21:38 --> 00:21:42: You know particularly coming up on the on the short
00:21:42 --> 00:21:45: end of it but 10 year to three month treasury
00:21:45 --> 00:21:49: difference of .3% is is quite concerning and tanking quickly
00:21:49 --> 00:21:53: and although every recession is different that's that's one of
00:21:53 --> 00:21:57: those indicators that very often seems to hold up across
00:21:57 --> 00:22:01: different types of recessions. So something I would watch. The
00:22:01 --> 00:22:06: other thing that's a little concerning is those personal consumption
00:22:06 --> 00:22:08: expenditures which are 70% of GDP.
00:22:08 --> 00:22:11: Have been holding up the 1st 3/4. I do have
00:22:11 --> 00:22:15: concerns about whether they can continue to hold up and
00:22:15 --> 00:22:19: and the things that give me pause are are real
00:22:19 --> 00:22:23: disposable income has been falling all year long and particularly
00:22:23 --> 00:22:27: earlier in the year when inflation was really spiking. But
00:22:27 --> 00:22:31: we're still, I'm seeing that fall. So IE our incomes
00:22:31 --> 00:22:36: aren't keeping up with inflation and we've really run through
00:22:36 --> 00:22:38: those Umm, those federal government.
00:22:38 --> 00:22:42: Um, subsidies. So they really spiked savings rates. Our savings
00:22:42 --> 00:22:46: are coming down really quickly. We're at some of the
00:22:46 --> 00:22:49: lowest savings rates we've had in a very long time
00:22:49 --> 00:22:52: right now. So we're running through savings to hold up
00:22:52 --> 00:22:56: that employment and trusting and certainly lots of very public
00:22:56 --> 00:23:00: layoff announcements the last couple months. I'm, I'm not finding
00:23:00 --> 00:23:03: it showing up in the data yet, but anecdotally a
00:23:03 --> 00:23:06: lot of that happening. So I'm not sure how much
00:23:06 --> 00:23:08: of you know how much of the job.
00:23:09 --> 00:23:12: The market is going to really help us on that
00:23:12 --> 00:23:14: issue in the next few years. And then if you
00:23:15 --> 00:23:18: look at more like the month over month retail sales
00:23:18 --> 00:23:21: data, we're seeing weakness now both in jobs and in
00:23:21 --> 00:23:26: retail sales associated particularly with goods that you might want
00:23:26 --> 00:23:30: to take out financing for. So autos, big appliances, electronics,
00:23:30 --> 00:23:33: those sort of things are starting. We can and of
00:23:33 --> 00:23:37: course the housing market is really slowing. So all things
00:23:37 --> 00:23:39: I'd be worried about.
00:23:39 --> 00:23:41: You know, looking at GDP in the next year.
00:23:42 --> 00:23:42: OK.
00:23:43 --> 00:23:46: And Sabrina, recession or no recession next year?

00:23:47 --> 00:23:50: Yeah. I think I'm in the camp of technical recession
00:23:50 --> 00:23:52: in the first half of 2023 and sort of tagging
00:23:52 --> 00:23:55: on to to what Paige was alluding to with some
00:23:55 --> 00:23:58: cracks beginning to show on the consumer side. One of
00:23:58 --> 00:24:01: the things that we've been tracking all year that's becoming
00:24:01 --> 00:24:04: concerning relative to the growth outlook is the amount of
00:24:04 --> 00:24:07: spending that seems to be fueled by credit cards and
00:24:07 --> 00:24:10: in a rising interest rate environment and we, you know,
00:24:10 --> 00:24:14: add the prospect of higher relative unemployment, it becomes harder
00:24:14 --> 00:24:17: to pay off those debts that are then carrying higher
00:24:17 --> 00:24:18: interest rates, so.
00:24:18 --> 00:24:21: The cracks are certainly beginning to show on the consumer
00:24:22 --> 00:24:25: side and I think it's it's almost unavoidable that we
00:24:25 --> 00:24:28: get into a position in the first half of the
00:24:28 --> 00:24:32: year where growth goes from being essentially anemic which is
00:24:32 --> 00:24:34: what we've seen year to date and some of the
00:24:34 --> 00:24:37: one off data in the quarterly GDP numbers to to
00:24:38 --> 00:24:41: technical recession. You know if we even look at the
00:24:41 --> 00:24:44: Q3 GDP on the surface it was nominally positive but
00:24:44 --> 00:24:48: when we dig into the domestic demand drivers those were
00:24:48 --> 00:24:49: much, much weaker.
00:24:49 --> 00:24:53: And the positive growth was associated with you know potentially
00:24:53 --> 00:24:56: one off government spending on things like the war in
00:24:56 --> 00:25:00: Ukraine, exports of oil and petroleum products, things like that.
00:25:00 --> 00:25:04: So when you look at the domestic demand picture, not
00:25:04 --> 00:25:04: as rosy.
00:25:06 --> 00:25:09: So a .5% positive growth for next year kind of
00:25:09 --> 00:25:13: applies a short and and shallow recession. Does anybody think
00:25:13 --> 00:25:16: it will be a long and and and deep recession?
00:25:16 --> 00:25:18: Is that on anyone's radar screen?
00:25:22 --> 00:25:25: I think it's possible, but recessions are always very hard
00:25:25 --> 00:25:28: to forecast. So you know my, as I mentioned my
00:25:28 --> 00:25:31: base case view is we're entering or or will shortly
00:25:31 --> 00:25:34: enter our recession, but that might be kind of a,
00:25:34 --> 00:25:38: you know, 60% probability or it's very hard to have
00:25:38 --> 00:25:40: high conviction as to if we're in or or are
00:25:40 --> 00:25:43: entering a recession. So I I don't think I have
00:25:43 --> 00:25:46: a good answer for you Bill as to how deep

00:25:46 --> 00:25:47: it may or may not be.
00:25:49 --> 00:25:52: Well, we know what the consensus is. Sorry, something to
00:25:52 --> 00:25:52: say.
00:25:52 --> 00:25:55: I would say the one thing that gives me some
00:25:55 --> 00:25:58: optimism that we don't want to get into some horribly
00:25:58 --> 00:26:02: deep and prolonged contraction is the relative state of unemployment.
00:26:02 --> 00:26:05: So yes, unemployment is going to likely increase. I think
00:26:05 --> 00:26:08: that is a relatively desirable outcome from the Fed. That's
00:26:08 --> 00:26:11: one of the few levers on the demand side that
00:26:11 --> 00:26:14: they can influence. But we're starting from a very, very
00:26:14 --> 00:26:18: tight position such that it may prevent deeper economic scarring.
00:26:18 --> 00:26:19: So that might be a.
00:26:19 --> 00:26:19: Pop.
00:26:19 --> 00:26:21: That's silver lining, if you will.
00:26:22 --> 00:26:26: Let's keep going with unemployment and jobs and and I'll
00:26:26 --> 00:26:29: sort of turn back to will who thought that the
00:26:29 --> 00:26:33: unemployment rate looked a little optimistic. You know the the
00:26:33 --> 00:26:36: forecast for next year is 4.5% yet yet we have
00:26:36 --> 00:26:39: job growth at the 600,000 and you know can those
00:26:39 --> 00:26:43: is one of those numbers not right it sounds like
00:26:43 --> 00:26:46: you don't believe that the 4.5 but does that imply
00:26:46 --> 00:26:49: job losses and you know and and and you know
00:26:49 --> 00:26:52: which is a much worse case for real estate.
00:26:52 --> 00:26:55: And still look you know low positive growth.
00:26:57 --> 00:26:59: I I think if we certainly the the level of
00:27:00 --> 00:27:03: job growth that's occurring now would you know be high
00:27:03 --> 00:27:07: enough to maintain a relatively low unemployment rate or at
00:27:07 --> 00:27:10: least that'd be my expectation. If we enter a recession
00:27:10 --> 00:27:13: then I would expect job growth to slow below the
00:27:13 --> 00:27:15: level that it is today.
00:27:17 --> 00:27:20: The 4 1/2% figure is a little higher than today,
00:27:20 --> 00:27:24: but just given the nature of recessions, I think we
00:27:24 --> 00:27:27: should expect it to grow above that level. One reason
00:27:27 --> 00:27:31: for optimism in terms of just the unemployment rate is
00:27:31 --> 00:27:34: the demographic picture today. If we think about the 2008
00:27:34 --> 00:27:38: downturn that that was a point in time when baby
00:27:38 --> 00:27:42: boomers were in their prime working age years and millennials
00:27:42 --> 00:27:45: were entering the workforce and that contributed to 9 or
00:27:45 --> 00:27:47: or around 10% headline.

00:27:47 --> 00:27:51:	And employment and and the so-called jobless recovery from 2010
00:27:51 --> 00:27:55:	through 2015 or so today, that picture is very different
00:27:55 --> 00:27:58:	with millennials in the workforce. But the smaller Gen Z
00:27:58 --> 00:28:02:	group kind of filling in and baby boomers are retiring
00:28:02 --> 00:28:06:	pretty quickly. So that's the reason to think unemployment could
00:28:06 --> 00:28:09:	remain low or in other words, if the recession does
00:28:09 --> 00:28:12:	end up being deep or or severe as you're kind
00:28:12 --> 00:28:16:	of asking before, we probably will only see something like
00:28:16 --> 00:28:17:	a 7% or maybe 7.
00:28:17 --> 00:28:20:	And 1/2 percent unemployment rate, as opposed to that 9
00:28:20 --> 00:28:22:	to 10% level during the global financial crisis.
00:28:24 --> 00:28:27:	That's a lot higher than the the the consensus so
00:28:27 --> 00:28:30:	so Sabrina and or Paige what do you think about
00:28:31 --> 00:28:34:	a employment unemployment rate and will we have you know
00:28:34 --> 00:28:38:	600,000 jobs is is pretty good too in 2023 is
00:28:38 --> 00:28:40:	you think that's too optimistic.
00:28:41 --> 00:28:45:	I actually think that the 4.5% unemployment consensus by year
00:28:45 --> 00:28:48:	in 23 may be here too pessimistic or rather to
00:28:48 --> 00:28:52:	put it another way to accelerated. I actually have our
00:28:52 --> 00:28:56:	base cases for unemployment to be higher at the end
00:28:56 --> 00:28:59:	of 2024 than 23. So do you think that there's
00:28:59 --> 00:29:03:	a bit of a lagged relationship given our expectation for
00:29:03 --> 00:29:06:	how we think this recession will play out, you know,
00:29:06 --> 00:29:10:	and I think if the prospect for the latter half
00:29:10 --> 00:29:12:	of next year is a more fragile.
00:29:12 --> 00:29:15:	Recovery. So maybe it is a shorter technical recession, but
00:29:16 --> 00:29:18:	the rate of growth coming out of that is still
00:29:18 --> 00:29:22:	anemic. We're in a fragile situation where the pace of
00:29:22 --> 00:29:25:	hiring, the pace of job retention may continue to be
00:29:25 --> 00:29:28:	weak leading into 2024. So I actually think I would
00:29:28 --> 00:29:32:	have the numbers slightly reversed in that order. You know,
00:29:32 --> 00:29:35:	the reality is there's still almost 11 million job openings
00:29:35 --> 00:29:38:	at present and so even if a third of those
00:29:38 --> 00:29:41:	aren't real or disappear, we'd still have, you know, ??
00:29:41 --> 00:29:42:	7,000,000.
00:29:42 --> 00:29:45:	Jobs to fill and right now there are 6.1 million
00:29:45 --> 00:29:49:	people unemployed, so there can definitely be skills are location
00:29:49 --> 00:29:54:	mismatch. But the 4.5% unemployment insinuates

approximately the same number
00:29:54 --> 00:29:58: of unemployed as that reduce job number, which again I
00:29:58 --> 00:30:02: think keeps the increases more gradual. So actually think it
00:30:02 --> 00:30:04: may be too pessimistic for next year.
00:30:07 --> 00:30:07: I think we're.
00:30:07 --> 00:30:09: Kind of splitting hairs a bit if it's under.
00:30:09 --> 00:30:12: 4 / 4 It's still really low.
00:30:12 --> 00:30:15: After under 5, you're really low and the implications of
00:30:16 --> 00:30:19: that are actually pretty significant. First of all, when you
00:30:19 --> 00:30:22: look at it by industry, the BLS awhile ago for
00:30:22 --> 00:30:25: Council that one of our biggest needs coming up over
00:30:25 --> 00:30:28: the next three years are going to be low cost
00:30:28 --> 00:30:32: healthcare workers. We're already seeing problems in that sector right
00:30:32 --> 00:30:35: now if we don't have immigration as well alluded to
00:30:36 --> 00:30:36: our demographic.
00:30:37 --> 00:30:40: There is really slowing. So you cannot expect the same
00:30:40 --> 00:30:42: amount of demand you had over the last 10 years
00:30:42 --> 00:30:46: over the next 10 years. The demographics are not supporting
00:30:46 --> 00:30:49: it. Our political environment is not supporting it. If we
00:30:49 --> 00:30:53: don't have immigration coming in, we're going to have major
00:30:53 --> 00:30:57: problems of not having enough people in certain sectors, particularly
00:30:57 --> 00:31:00: in the healthcare sector. So I would be watching things
00:31:00 --> 00:31:03: like that. The other thing that's really more applicable to
00:31:03 --> 00:31:06: real estate is, is your local market, right and so
00:31:06 --> 00:31:06: that.
00:31:07 --> 00:31:09: Is really varying as usual by by market. One of
00:31:09 --> 00:31:13: the things that's really surprised me recently though is I've
00:31:13 --> 00:31:16: seen now full reports come out we have all this
00:31:16 --> 00:31:19: talk about everyone moving from high cost metro areas to
00:31:19 --> 00:31:21: low cost metro areas. But if you look at the
00:31:22 --> 00:31:25: most recent BLS employment data, the big metros are hanging
00:31:25 --> 00:31:28: in there both in terms of number of jobs and
00:31:28 --> 00:31:31: even markets like Chicago which has gotten a really big,
00:31:31 --> 00:31:34: you know, bad rap the last years, is running an
00:31:34 --> 00:31:36: employment growth of over 4%, which is.
00:31:37 --> 00:31:40: You know, not what you hear like off the street
00:31:40 --> 00:31:43: on markets like that. So it's interesting to see those
00:31:43 --> 00:31:46: big markets holding up both in terms of percentage growth
00:31:46 --> 00:31:49: and in terms of number of employees where they, you
00:31:49 --> 00:31:53: know they clearly dominate just because of their size. So,

00:31:53 --> 00:31:56: so that's been a little interesting to see that you
00:31:56 --> 00:31:56: know.
00:31:57 --> 00:32:00: Over the decades, we keep saying, you know, people are
00:32:00 --> 00:32:02: moving out of these markets, they're moving and it just,
00:32:02 --> 00:32:05: it doesn't happen. So it's it's kind of interesting to
00:32:05 --> 00:32:06: be watching that right now as well.
00:32:07 --> 00:32:12: Interesting, interesting. Let's let's look at capital markets. So one
00:32:12 --> 00:32:16: of the forecasts that jumped out to me was that
00:32:16 --> 00:32:19: inflation is going to come down to 2.6% this is
00:32:19 --> 00:32:22: in 2024 and and then the the 10 year treasuries
00:32:22 --> 00:32:25: down to 3.2% and I think that would be great
00:32:25 --> 00:32:29: for real estate both both you know low inflation and
00:32:29 --> 00:32:33: and lower borrowing costs. But is that is that reasonable
00:32:33 --> 00:32:34: to expect?
00:32:35 --> 00:32:36: Anyone wants to start?
00:32:38 --> 00:32:41: I can start. If you look at the month over
00:32:41 --> 00:32:44: month data, so we had a big pop back in
00:32:44 --> 00:32:47: May, June where we were running well into double digit
00:32:47 --> 00:32:50: inflation numbers. But if we look at the month over
00:32:50 --> 00:32:54: month numbers, we're running at 2% inflation over the last
00:32:54 --> 00:32:57: three, three months. So it's come way off. It's sticking
00:32:58 --> 00:33:01: high because we tend to report inflation on year over
00:33:01 --> 00:33:03: year and we had a big pop earlier in the
00:33:03 --> 00:33:07: year. So from that perspective is actually not looking so
00:33:07 --> 00:33:10: bad and certainly what we would hope to see.
00:33:10 --> 00:33:13: Is it coming down and reacting to the the Federal
00:33:13 --> 00:33:16: Reserve actions and you know the sticky parts are energy
00:33:16 --> 00:33:19: and food. I think they're going to continue to be
00:33:19 --> 00:33:23: a little sticky just giving the global geopolitical environment right
00:33:23 --> 00:33:23: now.
00:33:25 --> 00:33:28: Energy is we could spend the whole hour talking about
00:33:28 --> 00:33:31: energy, so many changes coming up in the energy market
00:33:32 --> 00:33:35: and and I'll just say that's you know, our worst
00:33:35 --> 00:33:38: computer right now it's up 20% year over year. But
00:33:38 --> 00:33:40: over the next, you know, 15 to to 20 years,
00:33:41 --> 00:33:45: energy really has an opportunity to be a deflationary opportunity
00:33:45 --> 00:33:48: for real estate investors. And so really start to get
00:33:48 --> 00:33:51: to know your grid, the grids are so different from
00:33:51 --> 00:33:54: state to state and there's lots of focus on energy
00:33:54 --> 00:33:55: conservation.

00:33:55 --> 00:33:57: Right now and so before you go out and spend
00:33:57 --> 00:34:00: millions of dollars putting solar up on your roof, I
00:34:00 --> 00:34:02: would really get to understand your grid and what your
00:34:02 --> 00:34:05: relationship is to grid because it is so different from
00:34:05 --> 00:34:05: state to state.
00:34:08 --> 00:34:09: Maybe we could.
00:34:10 --> 00:34:14: Follow up with the the the interest rate issue which
00:34:14 --> 00:34:15: is again 3 point.
00:34:16 --> 00:34:17: Uh.
00:34:18 --> 00:34:20: 3.2% for the 10 year and I think we'd all
00:34:20 --> 00:34:24: agree that would be much better place to be than
00:34:24 --> 00:34:27: the, you know, low force we are today. Sabrina and
00:34:27 --> 00:34:30: will. What do you think about that and sort of
00:34:30 --> 00:34:33: the impact on and it kind of gets to that
00:34:33 --> 00:34:34: question of.
00:34:34 --> 00:34:38: Public market pricing versus private market pricing in that the,
00:34:38 --> 00:34:41: you know maybe maybe the, the, the public markets are
00:34:41 --> 00:34:45: overreacting based on high interest rates where if they are
00:34:45 --> 00:34:47: going to come down in a few years that you
00:34:47 --> 00:34:50: know that may be good, maybe mean the values aren't
00:34:50 --> 00:34:53: as challenged as they as they might might seem.
00:34:55 --> 00:34:58: Yeah, I think you know our sort of assumption has
00:34:58 --> 00:35:01: been that we reached sort of the peak terminal rate
00:35:01 --> 00:35:05: and we actually don't stay there for very long, right.
00:35:05 --> 00:35:08: We're sort of looking at this fragile economic backdrop. We
00:35:08 --> 00:35:13: have demographic challenges to growth and so you know, effectively
00:35:13 --> 00:35:16: assuming a 2.6% annual inflation, you know in 2024, it's
00:35:16 --> 00:35:20: still above this data target, but definitely a much more
00:35:20 --> 00:35:24: comfortable place than where we've been recently answered that plus
00:35:24 --> 00:35:26: the 10 year settling around 3%.
00:35:26 --> 00:35:29: You know, lends a little more cushion to the Fed
00:35:29 --> 00:35:31: than what we had had coming into the pandemic. So
00:35:31 --> 00:35:34: those two numbers feel relatively compatible to me.
00:35:37 --> 00:35:40: Yeah, I I think that level of 10 year Treasury
00:35:40 --> 00:35:44: decline seems realistic. I think it's 4.1 or maybe 4.2
00:35:44 --> 00:35:48: today. So that is quite a bit of decline but.
00:35:50 --> 00:35:52: You know I guess if I I think, I think
00:35:52 --> 00:35:55: I'm learning that or we're all learning maybe I'm the
00:35:55 --> 00:35:57: slightly more -. 1 on the panel. So I I
00:35:57 --> 00:36:00: think that that decline in in treasury rates does seem

00:36:00 --> 00:36:03: realistic or or it could even go a little below
00:36:03 --> 00:36:06: that point. Just one caveat and the way you phrased
00:36:06 --> 00:36:09: the question Bill, I think that for real estate investors
00:36:09 --> 00:36:12: we certainly like low rates. I think we actually also
00:36:12 --> 00:36:15: like high inflation at least for buy and buy and
00:36:15 --> 00:36:18: hold investors that the developers don't like the high inflation
00:36:18 --> 00:36:19: but for.
00:36:19 --> 00:36:23: Core investors, I think the higher inflationary environment has been
00:36:23 --> 00:36:26: positive or has contributed to higher returns. So I guess
00:36:26 --> 00:36:28: it depends where in the capital stack or what your
00:36:28 --> 00:36:31: investment strategy is in terms of which which version of
00:36:31 --> 00:36:33: the economic world you're rooting for.
00:36:33 --> 00:36:36: That's true. That's complicated. Valuations are complicated.
00:36:37 --> 00:36:43: All right. So the Anita showed the transaction volume forecast
00:36:43 --> 00:36:48: and the numbers were 600 million this year and next
00:36:48 --> 00:36:54: year and and then 750,000,000, sorry, a billion, I should
00:36:54 --> 00:36:59: say 750 billion in 2024. And MSI is reporting that
00:36:59 --> 00:37:05: there's already been $571 billion of transactions so far this
00:37:05 --> 00:37:07: year. So this the the 2022.
00:37:07 --> 00:37:10: Number looks looks pretty safe but.
00:37:10 --> 00:37:13: You know, what do you think about the out years
00:37:13 --> 00:37:17: the next two years is, are our transaction volumes you
00:37:17 --> 00:37:20: know going to be equal to this year or is
00:37:20 --> 00:37:23: there a slowdown that maybe is this isn't picking up
00:37:23 --> 00:37:24: all the way?
00:37:28 --> 00:37:29: Sabrina.
00:37:30 --> 00:37:34: Yeah. We're definitely already seeing a slowdown in deal flow
00:37:34 --> 00:37:37: relative to the pace of what we saw earlier this
00:37:37 --> 00:37:39: year. I think it's realistic to assume we see a
00:37:39 --> 00:37:43: similar dynamic next year, but chronologically in reverse where first
00:37:43 --> 00:37:46: part of the year that's really where the dearth of
00:37:46 --> 00:37:50: activity is concentrated as again, we sort of reached that
00:37:50 --> 00:37:53: terminal Fed funds rate, maybe we're in this technical recession
00:37:53 --> 00:37:57: era and then a relative unleashing in the latter half
00:37:57 --> 00:37:59: of the year as again, we've sort of hit the
00:37:59 --> 00:38:00: apex of that.
00:38:00 --> 00:38:03: That upward trajectory and the growth picture for better or
00:38:04 --> 00:38:06: for worse is a little bit clearer. So I think

00:38:06 --> 00:38:10: assuming higher relative activity in 2024 also seems to jive
00:38:10 --> 00:38:12: with our, you know, sort of House view. You know
00:38:12 --> 00:38:16: those that have been sidelined by peak relative borrowing costs
00:38:16 --> 00:38:19: this year and next maybe inclined to come back into
00:38:19 --> 00:38:22: the fray particularly if they have pressure to deploy. So
00:38:22 --> 00:38:25: those closed end funds that have you know terminal dates
00:38:25 --> 00:38:29: coming up, they they feel that they're on the backside
00:38:29 --> 00:38:30: of the rate mountain in 2020.
00:38:30 --> 00:38:33: Morning. And start to unleash some of that capital. So
00:38:33 --> 00:38:35: I think that feels sort of right.
00:38:38 --> 00:38:42: I completely, completely agree and I think the consensus view
00:38:42 --> 00:38:45: from the survey seems seems right. The one just caveat
00:38:45 --> 00:38:48: is the office sector is where I think the liquidity
00:38:48 --> 00:38:51: is dropping the fastest. If we look at the Q3
00:38:51 --> 00:38:55: numbers as reported by MSCI, it was actually pretty strong.
00:38:55 --> 00:38:59: A lot of the office trades that occurred were probably
00:38:59 --> 00:39:02: negotiated in the first half of the year and and
00:39:02 --> 00:39:06: maybe even before interest rates really started moving in June.
00:39:06 --> 00:39:08: But that's the sector where I would.
00:39:08 --> 00:39:11: Expect transactions to remain low for a number of quarters
00:39:11 --> 00:39:14: due to the the bid ask spread between buyers and
00:39:14 --> 00:39:16: sellers still being pretty high today.
00:39:21 --> 00:39:21: Right.
00:39:22 --> 00:39:26: All right, so let's look at the the Ncreif property
00:39:26 --> 00:39:31: index forecast and the. The and the Anita showed all
00:39:31 --> 00:39:35: the components but the the overall number is 3.8% for
00:39:35 --> 00:39:37: total returns for 2020.
00:39:38 --> 00:39:42: For three and then 7% in 2024, so the income
00:39:43 --> 00:39:48: yields currently about 4%. So that then applies sort of
00:39:48 --> 00:39:53: flat appreciation next year and then you know 3% appreciation
00:39:54 --> 00:39:56: in 2024, so you know.
00:39:57 --> 00:40:00: As downturns go, that's not too bad. So things you
00:40:00 --> 00:40:02: know return stay positive. Is that do you? Do you
00:40:03 --> 00:40:05: all agree with that? Don't start with page.
00:40:09 --> 00:40:12: Yeah, this is what I brought up at the beginning
00:40:12 --> 00:40:14: of the of the of the call. So I it
00:40:14 --> 00:40:18: seems highly optimistic. It's certainly not in line with what
00:40:18 --> 00:40:21: the public markets are telling us and you know if
00:40:21 --> 00:40:22: you take lever.

00:40:24 --> 00:40:27: You know leverage properties and you you're running 300 basis
00:40:27 --> 00:40:31: points increase in interest rates. So what we're seeing are
00:40:31 --> 00:40:34: these you know bid ask spreads as as well mentioned
00:40:34 --> 00:40:37: happening right now. So we can go for a while
00:40:37 --> 00:40:40: and just not sell things Umm, but you know at
00:40:40 --> 00:40:43: some point do those cap rates start to adjust you
00:40:43 --> 00:40:47: know we'll see what happens, but it it seems optimistic
00:40:47 --> 00:40:50: you've got to make up for this somehow with growth
00:40:50 --> 00:40:52: and so we're certainly seeing you know.
00:40:53 --> 00:40:56: Cholesterol is still getting rent growth, et cetera, but we
00:40:56 --> 00:40:59: have some construction cycles coming up in those property markets
00:41:00 --> 00:41:02: that do have a lot of demand. So we're hitting
00:41:02 --> 00:41:02: a very.
00:41:04 --> 00:41:06: You know, precarious part of the cycle for this.
00:41:08 --> 00:41:14: And Sabrina and William, you probably contribute to the the
00:41:14 --> 00:41:17: the Priya survey on this on on so.
00:41:18 --> 00:41:20: And that is out of these numbers compared to what
00:41:20 --> 00:41:21: you think what you you're coming up with?
00:41:23 --> 00:41:26: Yeah, I I must I guess I played the the
00:41:26 --> 00:41:30: contrarian to well because I'm maybe the perpetual optimist here,
00:41:30 --> 00:41:33: but I think this is actually a little more bearish
00:41:33 --> 00:41:36: than our our most recent submission to the pre survey
00:41:36 --> 00:41:40: for example. You know I do think given where fundamentals
00:41:40 --> 00:41:43: stand today compared to past downturns, we are in a
00:41:43 --> 00:41:47: much more insulated position again particularly in the sectors that
00:41:47 --> 00:41:50: we favor and that we believe in. So you know
00:41:50 --> 00:41:53: industrial I believe every market is essentially.
00:41:53 --> 00:41:57: You know well below its long term average vacancy even
00:41:57 --> 00:42:00: it's rolling five year average vacancy that feels like a
00:42:00 --> 00:42:03: great position to be in. You know we think multifamily
00:42:03 --> 00:42:06: and and for rent residential is bolstered in a higher
00:42:06 --> 00:42:10: interest rate environment. And so with those fundamentals you know
00:42:10 --> 00:42:13: coupled with again this view that 2023 may be a
00:42:13 --> 00:42:16: tale of you know two separate parts of the year
00:42:16 --> 00:42:19: where the first half is virtually the little activity in
00:42:19 --> 00:42:23: the second-half is more of an unleashing actually think that
00:42:23 --> 00:42:24: the 2023 numbers.
00:42:24 --> 00:42:28: Could be modestly higher than what the consensus is

suggesting.
00:42:28 --> 00:42:30: And and then again 2024 we have a lot of
00:42:30 --> 00:42:33: capital pressure, right. So I think I think there is
00:42:33 --> 00:42:36: an argument to be had that we we could definitely
00:42:36 --> 00:42:37: see this achieve.
00:42:40 --> 00:42:43: I I think well, you know since we are forecasting
00:42:43 --> 00:42:47: day creef, Nate Reef does have a pretty high concentration
00:42:47 --> 00:42:50: of traditional office properties, not so, not life science, not
00:42:50 --> 00:42:54: creative office but kind of commodity office buildings and those
00:42:54 --> 00:42:58: are probably where value pressures could be the strongest and
00:42:58 --> 00:42:58: so.
00:43:00 --> 00:43:03: For that reason partially that's why uh you know my
00:43:03 --> 00:43:05: submission for Priya and and when we did the the
00:43:06 --> 00:43:08: UI submission was a little bit lower on on total
00:43:08 --> 00:43:11: rate of return. I think the unknown or or the
00:43:11 --> 00:43:14: both the upside and the downside risk is just where
00:43:14 --> 00:43:17: inflation goes and that's incredibly hard to predict. It's a
00:43:17 --> 00:43:20: bit like predicting I think you know what will the
00:43:20 --> 00:43:22: S&P 500 be in a year. It's just a it's
00:43:22 --> 00:43:26: it's it's it's not well understood by economists the Federal
00:43:26 --> 00:43:29: Reserve has said they don't have a great working model
00:43:29 --> 00:43:29: of.
00:43:29 --> 00:43:32: Inflation and that's their kind of core mandate is to
00:43:32 --> 00:43:35: keep inflation under control. So if if you're on team
00:43:35 --> 00:43:38: transitory or you think inflation is going to fall to
00:43:38 --> 00:43:41: the kind of three percent, 2% level by the end
00:43:41 --> 00:43:44: of the year, then I think those returns will probably
00:43:44 --> 00:43:47: be somewhere around where the survey suggests or lower. If
00:43:47 --> 00:43:49: you think the kind of 6, seven, 8% range will
00:43:49 --> 00:43:53: persist throughout the year, then that's where there could be
00:43:53 --> 00:43:56: upside risk where returns could be a little higher or
00:43:56 --> 00:43:59: at least that's that's how I'm thinking about it. But.
00:43:59 --> 00:44:02: As mentioned, these are very difficult things to forecast.
00:44:05 --> 00:44:08: Keeps keeps it interesting. Let's see I'm going to I'm
00:44:08 --> 00:44:12: going to shift to to property markets now and let's
00:44:12 --> 00:44:16: start with industrial and and is indeed a pointed out
00:44:16 --> 00:44:19: it's the it's still the star of the show go
00:44:19 --> 00:44:23: you know historically and going forward a little bit of
00:44:23 --> 00:44:26: a a slowdown so the 23 and 24 forecast we
00:44:26 --> 00:44:30: have unleveraged returns averaging almost 9% rent growth at 4

00:44:31 --> 00:44:33: 1/2% on average and the availability.
00:44:33 --> 00:44:36: Rate rate will peak at 5.3% and at at in
00:44:36 --> 00:44:40: 2024. You know when I first started in in real
00:44:40 --> 00:44:44: estate that the thought that industrial could ever have a
00:44:44 --> 00:44:47: available rate as low as 5.3% was was you know
00:44:47 --> 00:44:51: impossible to think about. So just trying to just get
00:44:51 --> 00:44:56: everyone else opinion is is everything roses for industrial or
00:44:56 --> 00:44:59: or do you have any concerns and I'll start with
00:45:00 --> 00:45:03: you will I think you you had some thoughts about.
00:45:04 --> 00:45:05: Some of the tenants.
00:45:06 --> 00:45:09: Yeah. So, so I agree with what Sabrina said about
00:45:09 --> 00:45:13: occupancy probably remaining high, rent growth will probably remain positive.
00:45:13 --> 00:45:17: However, if we look at how most investors are underwriting
00:45:17 --> 00:45:21: industrial and even how appraisers are applying that the mark
00:45:21 --> 00:45:24: to markets which which reflects what investors are doing. The
00:45:24 --> 00:45:28: assumptions have gotten pretty aggressive in that space over the
00:45:28 --> 00:45:31: last five years and especially even over the last one
00:45:31 --> 00:45:34: or two years where the the kind of long-term 3%
00:45:34 --> 00:45:36: growth rate in market rents.
00:45:36 --> 00:45:40: Is no longer the standard assumption it's it's something higher
00:45:40 --> 00:45:44: than that. So even if occupancy remains strong and market
00:45:44 --> 00:45:47: rents grow 3 or 4% next year that may cause
00:45:47 --> 00:45:51: value declines because underwriters were expecting more like 9 or
00:45:51 --> 00:45:55: 10% growth next year. That's that's not been uncommon in
00:45:55 --> 00:45:58: in in appraisals and at least in the initial years
00:45:58 --> 00:46:02: and and in how investors are underwriting and then just
00:46:02 --> 00:46:05: the the rise in interest rates that's occurred I think
00:46:05 --> 00:46:07: will pressure the industrial sector.
00:46:07 --> 00:46:10: And the low cap rate sectors maybe a little bit
00:46:10 --> 00:46:13: more than than the higher cap rate sectors. So I
00:46:13 --> 00:46:17: think returns and industrial are likely to remain positive next
00:46:17 --> 00:46:20: year, but just not quite as positive as the survey
00:46:20 --> 00:46:21: suggests.
00:46:23 --> 00:46:25: Page helping you cover.
00:46:26 --> 00:46:27: Yeah, so.
00:46:27 --> 00:46:28: I.
00:46:29 --> 00:46:33: You know, construction is always the problem for industrial

and
00:46:33 --> 00:46:33: so.
00:46:36 --> 00:46:36: COVID.
00:46:37 --> 00:46:43: Created this odd anomaly where our online sales just jumped
00:46:43 --> 00:46:45: by a crazy amount. But.
00:46:46 --> 00:46:49: The ecommerce sales as a percent of total real sales
00:46:49 --> 00:46:54: have been falling for the last two years very consistently.
00:46:55 --> 00:46:58: And and still well above where they would have been
00:46:58 --> 00:47:01: if they were trendy. We we had a really just.
00:47:02 --> 00:47:05: Flat trend line going until now, I don't say flat,
00:47:05 --> 00:47:09: but a very consistent straight line trend kind itself COVID
00:47:09 --> 00:47:12: hit. So COVID hits our online sales go through the
00:47:12 --> 00:47:16: roof are industrial absorption basically double s over the past
00:47:17 --> 00:47:20: years compared to long term trends and now our construction
00:47:20 --> 00:47:23: has also you know basically doubled. So now in a
00:47:24 --> 00:47:27: situation where we're kind of adjusting people are kind of
00:47:27 --> 00:47:31: going back out again they're kind of liking to get
00:47:31 --> 00:47:33: out of their house and go back out.
00:47:33 --> 00:47:36: Again and um are and those ecommerce sales?
00:47:37 --> 00:47:40: You know, on our trend line, they should be another
00:47:40 --> 00:47:44: 150 basis points lower than they are right now compared
00:47:44 --> 00:47:47: to total retail sales. So do they keep falling in
00:47:47 --> 00:47:49: the next year? I don't know, maybe they do. And
00:47:50 --> 00:47:52: if so, do we continue at this crazy high pace
00:47:52 --> 00:47:55: that we've been at over the last couple of years
00:47:55 --> 00:47:55: or?
00:47:57 --> 00:48:00: Does our construction start to outpace demand because?
00:48:00 --> 00:48:01: Because.
00:48:01 --> 00:48:05: Compared to the trans before COVID, our construction right now
00:48:05 --> 00:48:08: as far as what's under construction is about AA normal
00:48:08 --> 00:48:12: absorption pace. So we'll see where it all comes out.
00:48:12 --> 00:48:15: But I think there's a chance in the upcoming year,
00:48:15 --> 00:48:19: particularly if we do have a recession that you know,
00:48:19 --> 00:48:22: industrial tends to go up not least. And so I
00:48:22 --> 00:48:25: think we could have a little adjustment in the next
00:48:25 --> 00:48:26: year.
00:48:29 --> 00:48:31: Great. And Sabrina.
00:48:32 --> 00:48:35: Yeah, I think you know our assumptions have been that
00:48:35 --> 00:48:38: we, you know, always assumed that the pace of occupier
00:48:38 --> 00:48:42: demand was going to moderate, whether it was by virtue
00:48:42 --> 00:48:46: of a technical recession or just a modernizing moderation of

00:48:46 --> 00:48:49: the sort of frenzied pace that we've seen over the
00:48:49 --> 00:48:52: last 24 months. And we've been very conservative in our
00:48:52 --> 00:48:56: assumptions and our underwriting as a result of that. You
00:48:56 --> 00:48:59: know, I do think for us on the ecommerce side,
00:48:59 --> 00:49:02: even conservatively, you know, if you're applying 1/2.
00:49:02 --> 00:49:06: Pre pandemic compound average growth rate. So if you take
00:49:06 --> 00:49:10: the 2010 through 2019 annualized average growth in ecommerce relative
00:49:10 --> 00:49:14: to total retail sales and sort of apply that, that
00:49:14 --> 00:49:17: would insinuate you, you could still reach a level or
00:49:17 --> 00:49:21: ecommerce sales or you know over a trillion dollars by
00:49:21 --> 00:49:24: 2025. And so the relationship holds, you know that could
00:49:25 --> 00:49:30: create approximately 315,000,000 square feet of additional demand essentially between
00:49:30 --> 00:49:32: the end of last year and 2025, so.
00:49:33 --> 00:49:36: You know as Paige alluded to these things tend to
00:49:36 --> 00:49:39: go up empty compared to other property types. But the
00:49:39 --> 00:49:43: the development pipeline and the timeline to deliver these things,
00:49:43 --> 00:49:46: the spigot can be turned off much quicker than if
00:49:46 --> 00:49:49: you're saying that in the middle of a multi year
00:49:49 --> 00:49:53: you know office development project. So in you know every
00:49:53 --> 00:49:57: year when we go to forecast our market level fundamentals
00:49:57 --> 00:50:00: for every year that I've been in the industry there's
00:50:00 --> 00:50:03: been an assumption that supply is going to get out
00:50:03 --> 00:50:03: of.
00:50:03 --> 00:50:07: Out of demand for industrial, you know it hasn't happened
00:50:07 --> 00:50:10: in 15 years. And so you know I suppose we're
00:50:10 --> 00:50:13: overdue for that to occur at some point, but does
00:50:13 --> 00:50:16: does still feel relatively insulated on a relative basis when
00:50:16 --> 00:50:18: we look across the sectors.
00:50:20 --> 00:50:23: Well OK. So so the the flip side of industrial
00:50:23 --> 00:50:26: would be retail and and the the forecast looks at
00:50:26 --> 00:50:31: neighborhood and and community centers grocery anchored to guest basically.
00:50:32 --> 00:50:36: So little different than some of the ecommerce related although
00:50:36 --> 00:50:40: ecommerce is certainly making inroads. But just looking at the
00:50:40 --> 00:50:43: at the the the retail forecast and I was noticing
00:50:44 --> 00:50:47: that the the vacancy rate for or the you know
00:50:47 --> 00:50:50: the vacancy rate yeah for for those centers is is
00:50:50 --> 00:50:51: flat at 7%.

00:50:51 --> 00:50:54: For all years which which relatively speaking is kind of
00:50:54 --> 00:50:58: the best performance. There's no increase in in in vacancy
00:50:58 --> 00:51:00: at all. You know it's and and sort of goes
00:51:01 --> 00:51:03: against the sort of the what you hear in the
00:51:03 --> 00:51:06: press is the retails that you know a lot of
00:51:06 --> 00:51:10: risk and so so our grocery anchored centers or neighborhood
00:51:10 --> 00:51:13: centers are are they so really insulated and and and
00:51:13 --> 00:51:16: maybe even you know recession proof that that we can
00:51:16 --> 00:51:17: take from this.
00:51:23 --> 00:51:25: Go ahead, Sabrina, was just going to say I.
00:51:25 --> 00:51:28: Think part of that is a function of the fact
00:51:28 --> 00:51:32: that retail really took its lumps well in advance of
00:51:32 --> 00:51:35: the pandemic. So if you look in the period between
00:51:35 --> 00:51:39: 2010 and 2019, more than 400 domestic retailers announced bankruptcies.
00:51:40 --> 00:51:43: Some of those got, you know, revived, but there were
00:51:43 --> 00:51:46: a ton of closures leading into the pandemic and the
00:51:46 --> 00:51:50: pace of retailer bankruptcies actually slowed both in 2021 and
00:51:50 --> 00:51:52: year to date 2022, so.
00:51:52 --> 00:51:55: In a sense, the absolute weakest were thinned from the
00:51:55 --> 00:51:59: herd in advance of the pandemic pain and now leading
00:51:59 --> 00:52:02: into what could be a technical recession. So I do
00:52:02 --> 00:52:06: think you have a stable relative fundamental profile, albeit one
00:52:06 --> 00:52:09: that is accompanied with a relatively anemic level of rank
00:52:09 --> 00:52:10: growth, right, so.
00:52:10 --> 00:52:11: Just.
00:52:11 --> 00:52:14: Feel insulated because you need these necessities, but.
00:52:15 --> 00:52:18: You know I don't think that we're going to see
00:52:18 --> 00:52:21: this huge inflow of of capital chasing retail and the
00:52:21 --> 00:52:24: best necessity and grocery anchored centers rarely trade so.
00:52:27 --> 00:52:28: Page you're going.
00:52:30 --> 00:52:33: I just add that we have a big definition question
00:52:33 --> 00:52:36: around retail and first of all the national numbers are
00:52:36 --> 00:52:39: are meaningless for retail and so are the market level.
00:52:40 --> 00:52:42: I mean it's so specific to a space on a
00:52:42 --> 00:52:45: street, preferably a corner with good visibility but but we
00:52:45 --> 00:52:48: have a I think we now have a definition of
00:52:48 --> 00:52:51: what retail is, is it medical office, is it education,
00:52:51 --> 00:52:54: is it sorting center or is it a ecommerce distribution.
00:52:54 --> 00:52:57: It's becoming all these things that it didn't used to
00:52:57 --> 00:53:00: be that may create occupancy in these buildings.

00:53:01 --> 00:53:05: But there are certainly huge value implications to who those
00:53:05 --> 00:53:09: tenants are and what they're doing and how they create
00:53:09 --> 00:53:14: value for their surrounding tenants. So that that's really becoming
00:53:14 --> 00:53:17: a big part of that market. The other thing I'd
00:53:17 --> 00:53:18: add is.
00:53:18 --> 00:53:22: You know, regionally we do have markets that are adding
00:53:22 --> 00:53:27: big population bases. So you know, Dallas, Houston, over 500,000
00:53:27 --> 00:53:31: people added to those markets just in the past year,
00:53:31 --> 00:53:35: New York, 500,000, Austin and Atlanta and another 400,000 people
00:53:35 --> 00:53:40: in those markets. When you're adding that much population, even
00:53:40 --> 00:53:45: though those are big markets and they're big geographic distributions,
00:53:45 --> 00:53:49: there's probably housing that's going in along with those.
00:53:49 --> 00:53:53: Those sorts of population growth numbers and if there's housing
00:53:53 --> 00:53:56: going on, there's probably a need for some sort of
00:53:56 --> 00:54:01: retail whether it's service space or grocery based. And grocery
00:54:01 --> 00:54:04: has been competitive for decades now and by but I
00:54:04 --> 00:54:07: think there is a need locally and there's not a
00:54:07 --> 00:54:11: ton of construction going on on retail and unlike some
00:54:11 --> 00:54:14: of the other property types. So as Sabrina said, this
00:54:14 --> 00:54:18: is a, this is a property type that started adjusting
00:54:18 --> 00:54:20: well before COVID and it's morphing into.
00:54:20 --> 00:54:24: Different things, but each of which has very different value
00:54:24 --> 00:54:28: indications for those properties. So it's kind of an interesting
00:54:28 --> 00:54:31: and certainly of all the properties the most local and
00:54:31 --> 00:54:32: property specific.
00:54:33 --> 00:54:35: I think you're saying that you know well located real
00:54:35 --> 00:54:38: estate with a lot of parking and visibility. You know
00:54:38 --> 00:54:40: it's going to, it's going to find a way to
00:54:40 --> 00:54:40: do OK.
00:54:41 --> 00:54:42: There you go.
00:54:43 --> 00:54:44: Well, any thoughts?
00:54:45 --> 00:54:48: I agree this is the most difficult sector to forecast
00:54:48 --> 00:54:51: in a way because it's there's so many components and
00:54:51 --> 00:54:54: at the national level it is kind of meaningless. It's
00:54:54 --> 00:54:57: really a good way of putting it page. Part of
00:54:57 --> 00:55:00: it too is what we're forecasting is the nacre if
00:55:00 --> 00:55:04: retail, you know performance and that has actually shifted

quite
00:55:04 --> 00:55:06: a bit over the last five to 10 years. I
00:55:06 --> 00:55:10: I participate in the Ncreif Research Committee that thinks about
00:55:10 --> 00:55:13: these definitions and how we should subcategorize the the areas
00:55:14 --> 00:55:15: of retail and it's been a.
00:55:15 --> 00:55:19: A difficult task because there's been just so much change
00:55:19 --> 00:55:22: there and and even just trying to figure out how
00:55:22 --> 00:55:25: to categorize it correctly is is hard. So maybe I'll
00:55:25 --> 00:55:29: dodge your question directly bill and just emphasize that the
00:55:29 --> 00:55:32: vacancy rate today is near an all time low level
00:55:32 --> 00:55:34: in neighborhood community centers.
00:55:35 --> 00:55:39: Lifestyle centers, power centers, that's something that I don't think
00:55:39 --> 00:55:41: a lot of people were expecting a year or two
00:55:41 --> 00:55:44: ago. And that's because retailers have been doing well, they've
00:55:44 --> 00:55:47: been signing leases and it's very difficult to say where
00:55:47 --> 00:55:49: it's where it is going forward. So that's the part
00:55:49 --> 00:55:50: I'm gonna, I'm gonna dodge.
00:55:52 --> 00:55:55: Well, the the yields are higher than go ahead pace.
00:55:55 --> 00:55:58: I would just add, I think retail is the property
00:55:58 --> 00:56:00: type that we have the worst data on as far
00:56:00 --> 00:56:02: as the major property types. But it's just you look
00:56:02 --> 00:56:05: at the vacancy rates and I can go out and
00:56:05 --> 00:56:06: drive on market and go.
00:56:07 --> 00:56:10: I've seen a lot more vacancies than what is showing
00:56:10 --> 00:56:13: up in the numbers and the rents are horrible as
00:56:13 --> 00:56:16: far as the data that comes in. So I, you
00:56:16 --> 00:56:18: know, I think there's, there's a.
00:56:19 --> 00:56:22: Grain of salt with that data that gets produced on
00:56:22 --> 00:56:26: retail, Umm. But you know you're right, you're right Bill.
00:56:26 --> 00:56:29: And and Sabrina's great point that the, you know, the
00:56:29 --> 00:56:32: really good stuff doesn't sent tend to trade as well
00:56:33 --> 00:56:35: and it and it tends to stay occupied.
00:56:36 --> 00:56:39: But we'll have to talk to the data providers about
00:56:39 --> 00:56:41: getting better, better data.
00:56:42 --> 00:56:46: OK. All right. Let's, let's, let's talk about the single
00:56:46 --> 00:56:48: family market on there. Probably a lot of people on
00:56:49 --> 00:56:51: the call then involved in that business.
00:56:52 --> 00:56:56: So the the four, you know obviously it's been on
00:56:56 --> 00:57:00: a tear with with very low interest rates that sort

00:57:00 --> 00:57:04: of come to an abrupt stop with with mortgage rates
00:57:04 --> 00:57:05: up around 7%.
00:57:06 --> 00:57:11: So, so the forecast is for 950,000 homes this year
00:57:11 --> 00:57:15: down from 1.1 million last year and and 800,000 in
00:57:15 --> 00:57:19: in 2023. And then you know how housing prices are
00:57:19 --> 00:57:23: predicted to fall by 2% next year and then rise
00:57:24 --> 00:57:28: by 3% you know again way below what they've where
00:57:28 --> 00:57:32: they've been the last since COVID and and prior.
00:57:35 --> 00:57:38: What do you all think about the the single family
00:57:39 --> 00:57:42: market and and and is is this the right are
00:57:42 --> 00:57:46: these forecasts in the in the ballpark I guess in
00:57:46 --> 00:57:46: your view?
00:57:50 --> 00:57:53: Yeah. Could you kick us off? You know, historically higher
00:57:53 --> 00:57:56: relative interest rates have had a much more adverse effect
00:57:56 --> 00:57:59: on the price of an average home than what the
00:57:59 --> 00:58:02: consensus is suggesting and what may happen this time around
00:58:02 --> 00:58:04: and really the elements of play today?
00:58:05 --> 00:58:05: I think.
00:58:05 --> 00:58:09: That we maybe aren't incorporating or isn't getting as much
00:58:09 --> 00:58:14: acknowledgement is just inventory. So sellers that don't need to
00:58:14 --> 00:58:18: sell right now may feel inclined to wait and a
00:58:18 --> 00:58:20: lot of those would be sellers.
00:58:20 --> 00:58:23: Are locked in at interest rates that are half or
00:58:23 --> 00:58:25: less of what today's going rate is. So you know
00:58:25 --> 00:58:28: if they're locked in at a low rate and don't
00:58:28 --> 00:58:30: need to sell, they'll just wait it out. And so
00:58:30 --> 00:58:33: while we are going to see price cuts for those
00:58:33 --> 00:58:36: homes that do transact relative to sort of post pandemic
00:58:36 --> 00:58:39: peak values at an aggregate level, again we're sort of
00:58:39 --> 00:58:43: talking nationally and page keeps reminding us thoughtfully that we
00:58:43 --> 00:58:46: need to bring this back to the local market level.
00:58:46 --> 00:58:49: This will vary materially market to market, but at an
00:58:49 --> 00:58:50: aggregate level I do think that.
00:58:51 --> 00:58:55: The price declines will be relatively benign because of that
00:58:55 --> 00:58:56: inventory shortage and.
00:58:57 --> 00:59:01: I saw a really interesting statistic that despite the relatively
00:59:01 --> 00:59:05: dramatic increase in rates here to date, the National Association
00:59:05 --> 00:59:08: of Realtors just posted that the median sales price in
00:59:08 --> 00:59:11: September was still up almost 8 1/2% year over year.

00:59:12 --> 00:59:15: So obviously we'll get to see in October when that
00:59:15 --> 00:59:19: data gets finalized what's happening there. But I think inventory
00:59:19 --> 00:59:21: is really the key to whether this comes to pass
00:59:22 --> 00:59:23: as the consensus predicts.
00:59:26 --> 00:59:30: I I agree with the construction figures. I think actually
00:59:30 --> 00:59:33: home prices it's it's very difficult to to forecast some
00:59:33 --> 00:59:37: of the methodology items or or there's there's a lot
00:59:37 --> 00:59:40: of ways to measure home prices but prices are usually
00:59:40 --> 00:59:43: pretty sticky moving down. So I I can happily say
00:59:43 --> 00:59:47: after being a little more negative on everything else I'm
00:59:47 --> 00:59:50: actually a little more optimistic about where home prices are
00:59:50 --> 00:59:52: going than than the survey is.
00:59:53 --> 00:59:55: At least for at least for 2023.
00:59:59 --> 01:00:01: I just add you know mortgage rates are up by
01:00:01 --> 01:00:04: you know 30 year mortgage rates are up by almost
01:00:04 --> 01:00:07: 400 basis points year over year that's a you know
01:00:07 --> 01:00:10: if you want to keep your mortgage payment the same
01:00:10 --> 01:00:13: that's about a 19% decline in your home price. It's
01:00:13 --> 01:00:16: certainly not showing up in the numbers right now but
01:00:16 --> 01:00:19: until those rates come off a bit there's you know
01:00:19 --> 01:00:22: you're either going to have a slowdown in sales or
01:00:22 --> 01:00:24: there's got to be some sort of adjustment in price
01:00:24 --> 01:00:27: more than what's showing up right now and and you
01:00:27 --> 01:00:29: know and and again it's.
01:00:29 --> 01:00:29: Um.
01:00:30 --> 01:00:33: You know, on your meeting home price, it's a $4000
01:00:33 --> 01:00:38: increase in payments per year and that's significant when you're,
01:00:38 --> 01:00:41: you know if your median income is about 70,000. So
01:00:41 --> 01:00:42: it's not.
01:00:43 --> 01:00:46: It's not something that's insignificant as far as you know
01:00:46 --> 01:00:49: how that might start to price unless the rates come
01:00:49 --> 01:00:50: off fairly soon.
01:00:53 --> 01:00:57: Here's another interesting thing is that the hurricane in Florida
01:00:57 --> 01:01:00: and I think we're getting running out of time, but
01:01:00 --> 01:01:04: the hurricane in Florida is about some really interesting things.
01:01:04 --> 01:01:08: That area had a huge number of institutional owners down
01:01:08 --> 01:01:11: there. It's a market that has a significant insurance problem
01:01:11 --> 01:01:15: before even this hurricane hit and the availability of insurance
01:01:15 --> 01:01:19: and the ability of institutional owners to self insure brings

01:01:19 --> 01:01:22: up a lot of questions about the viability of.
01:01:22 --> 01:01:26: Owning versus renting homes, particularly in those supermarkets. So it's
01:01:26 --> 01:01:28: just gonna be really interesting to see how that all
01:01:28 --> 01:01:30: plays out over the next year.
01:01:31 --> 01:01:34: Well, we're going to go over a minute or two
01:01:34 --> 01:01:37: and and just sort of touch on one other property
01:01:37 --> 01:01:41: type which is single family rental. It wasn't in the
01:01:41 --> 01:01:44: in the survey but certainly getting a lot of attention
01:01:44 --> 01:01:48: from home builders, from investors, from renters is, is that
01:01:48 --> 01:01:51: does that follow the same trajectory as, as, as As
01:01:51 --> 01:01:55: for sale single family and I Sabrina I think you've
01:01:55 --> 01:01:58: been looking in this sector, so I'll start with you.
01:01:59 --> 01:02:03: Made an early call on focusing specifically on purpose built
01:02:03 --> 01:02:06: single family rentals and we've been actively investing in that
01:02:06 --> 01:02:09: area through you know early COVID and post COVID. And
01:02:09 --> 01:02:12: it effectively you know serves as a bridge between the
01:02:12 --> 01:02:16: traditional multifamily product that a lot of institutions are used
01:02:16 --> 01:02:19: to having in their portfolio and this for sale housing
01:02:19 --> 01:02:21: that we're talking about. And it's really you know a
01:02:21 --> 01:02:25: great sort of tweener for households that either have been
01:02:25 --> 01:02:27: priced out of the market whether it's by virtue of
01:02:27 --> 01:02:30: the home price appreciation or no higher interest rates.
01:02:31 --> 01:02:34: Or just those you know that need the flexibility or
01:02:34 --> 01:02:37: want the flexibility of renting. But they're right sort of
01:02:37 --> 01:02:40: a life stage where they need more bedrooms, a backyard
01:02:40 --> 01:02:42: for their dog, their kids, work from home what have
01:02:43 --> 01:02:45: you. And so we always look at it you know
01:02:45 --> 01:02:48: potential investments through the lens of rent versus own. So
01:02:48 --> 01:02:51: we want to ensure that any of our offerings are
01:02:51 --> 01:02:54: catering to what the local market wants first and foremost
01:02:54 --> 01:02:57: and is offered at a price point that is comparable
01:02:57 --> 01:02:59: to light quality product on the for sale side and
01:02:59 --> 01:03:00: so a softening on the.
01:03:01 --> 01:03:03: On the 4 sale side, unfortunately for would be buyers
01:03:04 --> 01:03:07: doesn't really check the scales right now because higher interest
01:03:07 --> 01:03:07: rates.
01:03:09 --> 01:03:12: For the make up for lower absolute purchase prices, so
01:03:12 --> 01:03:16: you know we we've done some quick math and obviously
01:03:16 --> 01:03:19: a 2% increase in interest rates increases the monthly real
01:03:19 --> 01:03:23: feel of ownership 20%. And as Paige alluded to we've

01:03:23 --> 01:03:26: seen the 30 year fixed rate mortgage you know increased
01:03:26 --> 01:03:30: 400 basis points year to date. So unless home values
01:03:30 --> 01:03:32: are going to adjust 40 to 50% to make up
01:03:32 --> 01:03:35: that delta on the monthly which is not our base
01:03:35 --> 01:03:39: case by any means because of this inventory issue that
01:03:39 --> 01:03:40: that I alluded to.
01:03:40 --> 01:03:43: You know it creates more potential renters for purpose built
01:03:43 --> 01:03:47: single family products because they're already in the mindset that
01:03:47 --> 01:03:50: that's the the product type they want to be in
01:03:50 --> 01:03:53: and it just gives them sort of a landing ground
01:03:53 --> 01:03:55: for a few years or rates hopefully come down and
01:03:55 --> 01:03:58: and maybe they can enter the for sale market. But
01:03:58 --> 01:04:02: it's it's really a compelling sort of investment perspective from
01:04:02 --> 01:04:02: our view.
01:04:06 --> 01:04:09: Yeah, I agree with, I agree with that.
01:04:10 --> 01:04:14: The long term outlook for single family rentals is fairly
01:04:14 --> 01:04:18: positive. It's that the millennial generation, which is pretty large,
01:04:18 --> 01:04:21: is now in their 30s and that's the age at
01:04:21 --> 01:04:25: which they often will move from apartments to single family
01:04:25 --> 01:04:28: homes. And I became more of a believer in the
01:04:28 --> 01:04:31: SFR thesis four or five years ago when looking at
01:04:31 --> 01:04:36: census data, American Community Survey data, and just seeing how
01:04:36 --> 01:04:39: many people there likely are in that group who can't
01:04:39 --> 01:04:40: really afford them.
01:04:40 --> 01:04:44: You missed your upfront costs of.
01:04:45 --> 01:04:48: And therefore, there's a pretty strong demand thesis, I think
01:04:48 --> 01:04:50: that will last through the end of this decade in
01:04:51 --> 01:04:51: the SFR space.
01:04:54 --> 01:04:57: Well, I think we we have used up our time.
01:04:57 --> 01:05:00: So thank you everyone. Thank you for the panel. Anita,
01:05:00 --> 01:05:03: are are you going to take over and give the
01:05:03 --> 01:05:04: closing remarks I think.
01:05:06 --> 01:05:09: I'm bringing myself back on video. It works.
01:05:11 --> 01:05:15: I don't know, having trouble doing that. Here I am.
01:05:15 --> 01:05:18: OK. So thank you very much Bill and Sabrina and
01:05:18 --> 01:05:24: Paige and well for the incredible robust and insightful discussion.
01:05:24 --> 01:05:28: And thank you for the audience for joining us and
01:05:28 --> 01:05:32: your great questions. And I wanted to say again that
01:05:32 --> 01:05:36: the charts that we presented today and others are will

01:05:36 --> 01:05:42: be available shortly on knowledge Finder and at uli.org/economicforecast.

01:05:42 --> 01:05:46: And the recording of this webinar will be available within

01:05:46 --> 01:05:48: a few days. And to mention also that our next

01:05:49 --> 01:05:52: semi annual survey will be out in April and we

01:05:52 --> 01:05:54: hope you join us then as well.

01:05:55 --> 01:05:55: Thank you so much.

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